

Sector Thematic

Autos

Divergent trends in PVs and 2Ws

Our detailed model mix analysis of the personal mobility segments—two-wheelers (2Ws) and passenger vehicles (PVs)—indicates that downtrading trends are visible for the latter as the share of hatchbacks is up 350bps while that of compact SUVs is up 500bps in FY21. Given COVID, consumers are purchasing more to fulfil functional requirements. However, as a contrast, in 2Ws, the entry-level customer is impacted. The share of lower-end bikes has reduced 210bps in the product mix due to (a) 15% price hike owing to BSVI and (b) the downturn impacting customers at the lower end of the pyramid is more. Our view: as the PV segment is more resilient than 2Ws, we believe Maruti (BUY), being the market leader, would continue to benefit. We expect mid-teens growth in the car segment over FY22/23E. We roll forward our TP for Maruti to Rs 9,100 at 27x FY23E EPS (~15% premium to the long-term historic trading multiple). In 2Ws, Hero Motocorp would gain market share amidst a tepid market, driven by a revamped product portfolio.



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Autos

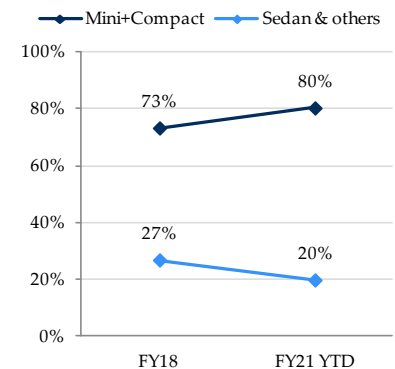
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- Passenger vehicles – hatchback segment 80% of market:** Customers are purchasing compact vehicles in the PV segment as the share of hatchback cars (mini + compact, sub 4m) has risen to 80.1% of the market (+800bps over FY19)/ +350bps over FY20). Similarly, the compact SUV segment (sub 4m) is 41% of the market (vs 36% in FY19). Individuals are mostly purchasing to fulfil functional requirements, given their enhanced need for personal mobility. At the same time, the share of MPVs has fallen by 380bps, as these are typically used for group travel.
- For 2Ws, recovery is weaker than in PVs:** Unlike the passenger car segment, in motorbikes, entry-level bike sales have reduced by 210bps in the overall product mix to 26.5%. It can be attributed to (a) 15% price hikes in the entry segment (due to BSVI) (b) customers at the lower end of the pyramid being more impacted in the downturn.
- Segmental/market share trends:** The share of SUVs has risen to 38% of total PVs (up 400bps over FY20), driven by new product launches. Maruti remains the dominant OEM with a market share of 48.5% (vs.51% in FY20). While the company has sustained market share in passenger cars (at 64%), it has ceded share in SUVs, due to its limited presence in the mid-SUV segment (above 4m). We believe the OEM would launch new models in this segment. In the interim, we expect Maruti to benefit from a broader recovery in PVs and are factoring in mid-teens volume growth over FY22/23E.
- Hero's market share at a multi-year high:** Within 2Ws, the share of motorbikes has risen to 67.5% in FY21 (+310bps over FY20) in the product mix. Higher sales in the rural segment are the driver of this trend as the agri economy has been healthy. Hero Motocorp has benefited from this as its 2W market share is up 280bps to 38.6%, which is at a multi-year high. Even within the motorbike segments, the share of Hero in the entry (65%) and executive segment (71%) is at record levels. We believe that going forward, the OEM would benefit from its revamped product mix as well as its entry into new segments, including premium motorbikes.

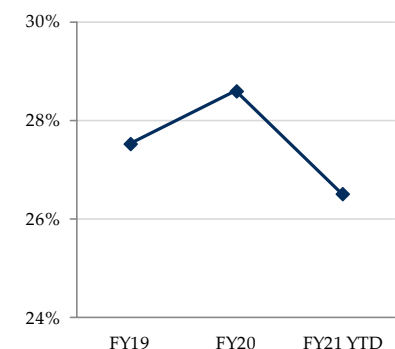
Company	CMP (Rs)	Reco
Maruti	7,762	BUY
Hero Motocorp	3,168	BUY

Share of hatchback has risen to 80% of the mix in the downturn



Source: SIAM, HSIE Research

Share of economic bikes has fallen in the overall motorcycle industry



Source: SIAM, HSIE Research

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Divergent growth trends

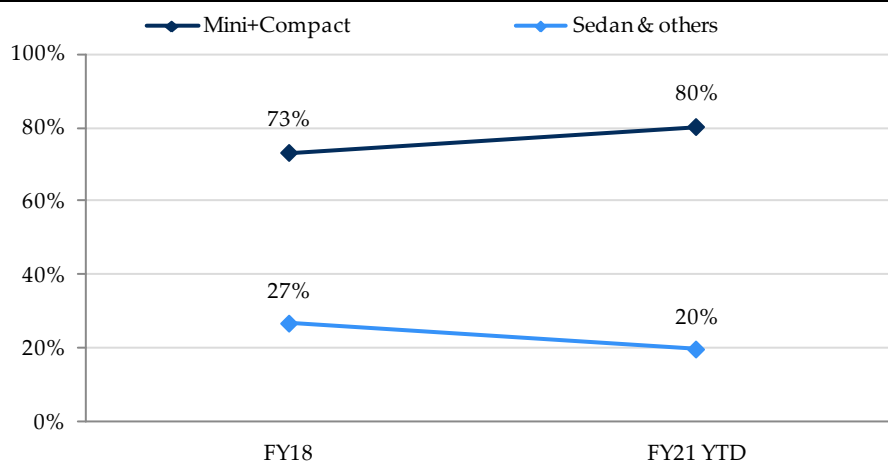
Downtrading trends are visible for PVs as the share of hatchback cars is up 350bps while compact SUVs share is up 500bps in FY21

Our detailed model mix analysis of the personal mobility segments—two-wheelers (2Ws) and Passenger vehicles (PVs)—indicates that the downtrading trends are visible for PVs as the share of hatchback cars is up 350bps while compact SUVs share is up 500bps in FY21. Customers are purchasing vehicles more to fulfil functional needs, arising from the COVID situation. However, as a contrast, in 2Ws, the entry-level customer is impacted adversely. The share of lower-end bikes has reduced 210bps in the product mix due to (a) 15% price hikes owing to BSVI (b) customers at the lower end of the pyramid being more impacted in the downturn. Our view: as the recovery in the PV segment is more resilient (than 2Ws), we believe that Maruti (BUY) would continue to benefit, being the market leader. We expect mid-teens growth in the car segment over FY22/23E. We roll forward our target price for Maruti to Rs 9,100 at 27x FY23E EPS. Within 2Ws, Hero Motocorp (Hero) would gain market share amidst a tepid market, driven by a revamped product portfolio.

Customers are purchasing vehicles more to fulfil functional needs, arising from the COVID situation

- **PV segment—customers purchasing entry/compact vehicles:** Downtrading trends are clearly visible for the passenger vehicle segment as the share of entry-level (mini + compact, sub-4m) cars has risen to 80.1% of the market (+800bps over FY19) and 350bps (over FY20). Similarly, compact SUVs now account for 41% of the market (vs 36% in FY19).

Share of hatchback has risen to 80% of the mix

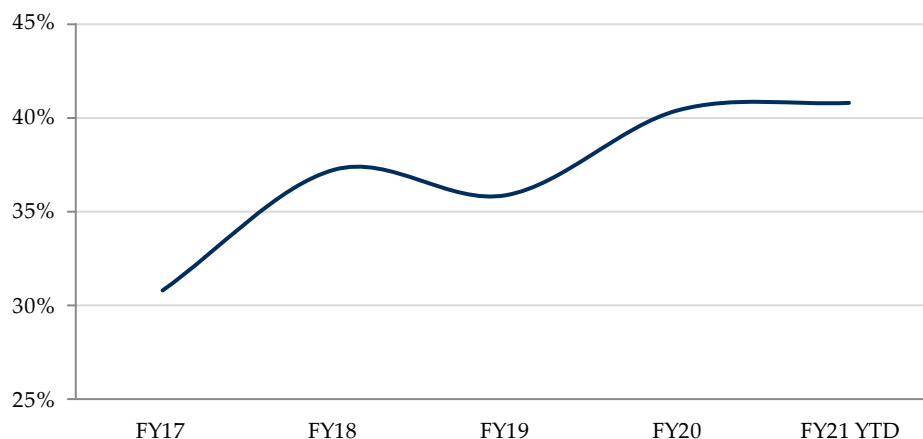


Source: SIAM, HSIE Research

Compact SUVs now account for 41% of the market (vs 36% in FY19)

- Within SUVs as well, the share of compact SUVs (sub-4m) has risen to ~41% of the segment (from 36% in FY19). The increase in the share of this segment is also driven by product launches, including Hyundai Venue, Kia Sonet, amongst others.

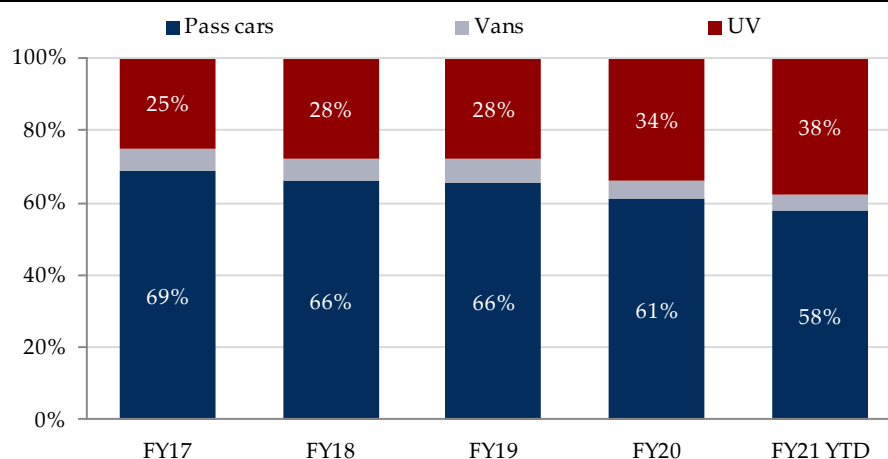
Share of compact SUVs has risen



Source: SIAM, HSIE Research

- Segmental trends—the share of SUVs rises in product mix:** The overall share of SUVs has risen to 38% of the market (+400bps over FY20). The recent launches in this segment include Kia Seltos and Sonet, Hyundai Venue and refreshed Creta, the Renault Triber and the revamped Tata Harrier, amongst others.

Passenger vehicle industry mix (%)

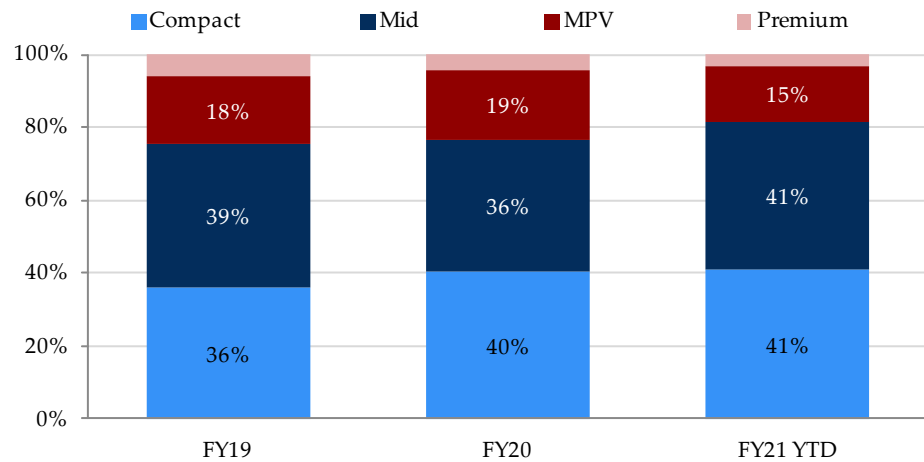


The overall share of SUVs has risen to 38% of the market (+400bps over FY20)

Source: SIAM, HSIE Research

- Within SUVs, the compact SUV segment and the mid-SUV (above 4m) segment are holding up- the latter is now at 40.6% (vs. 39.5% in FY19), driven by new launches. The compact SUV segment is now ~41% of the market (from 36% in FY19), driven by customers preferring the sub-4m vehicles, as highlighted earlier.

Segmental composition of SUVs

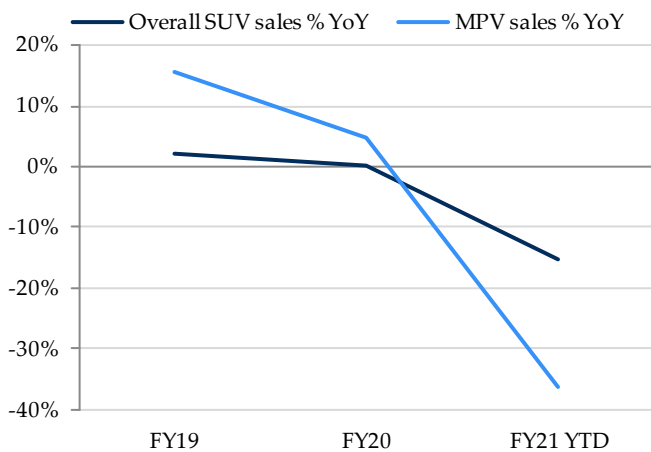


The compact SUV segment is now ~41% of the market (from 36% in FY19), driven by customers preferring the sub-4m vehicles

Source: SIAM, HSIE Research

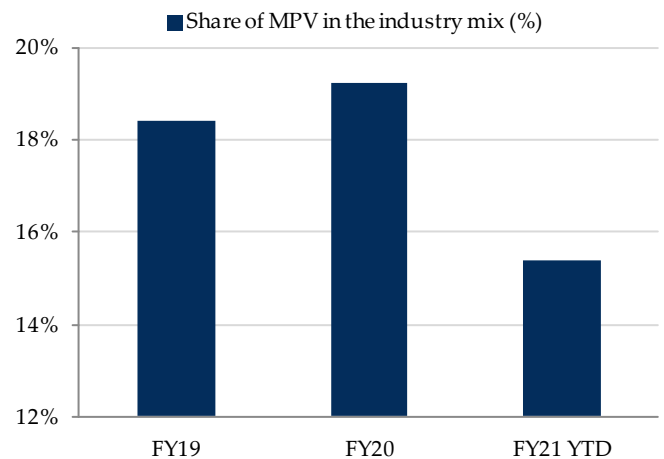
- The share of multi-purpose vehicles (MPVs), which is traditionally ~20% of the SUV segment, is down to 15.4% of the market (down -400bps over FY19). This is partially due to consumers moving towards individual personal mobility options.

SUV industry growth vs MPV growth



Source: SIAM, HSIE Research

Share of MPV in the domestic SUV industry

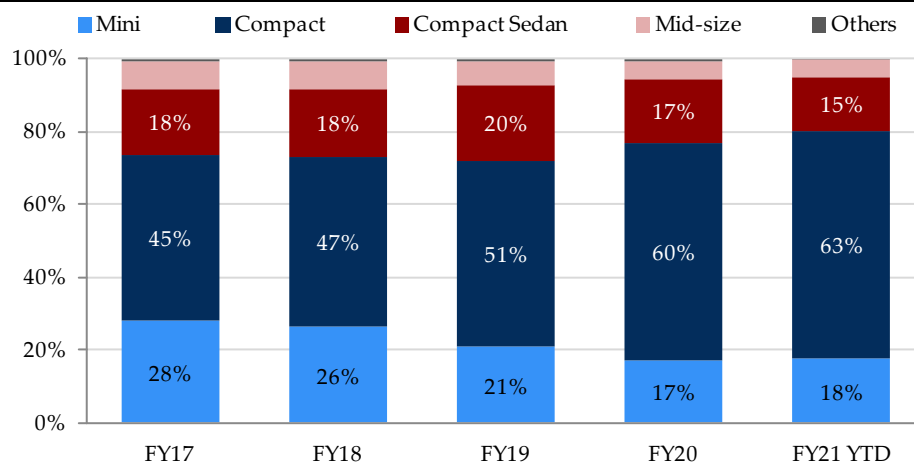


Source: SIAM, HSIE Research

Passenger cars–key trends:

- Within cars, the share of compact cars has risen to 62.5% of the mix in FY21 (+300bps over FY20). The share of entry cars has risen to 17.7% (+40bps over FY20). Correspondingly, the share of sedans has reduced by 350bps to 15%.

The share of entry-level (mini+compact) cars has risen over the years

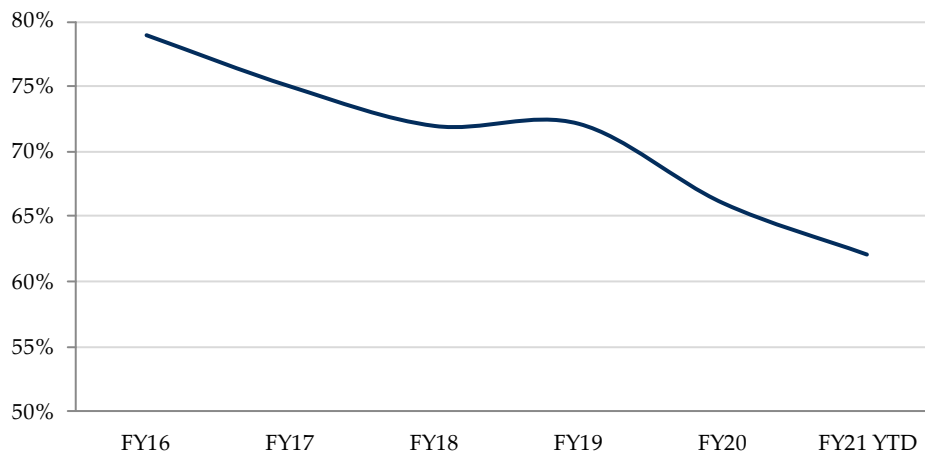
Passenger car industry mix (%)

Source: SIAM, HSIE Research

- However, the overall share of cars has reduced to 62% (-400bps) of the total PV market in FY21. This is due to a higher acceptance of SUVs, driven by new model launches.

Share of passenger cars has reduced to 62% in FY21 YTD

The overall share of cars has reduced to 62% (-400bps) of the total PV market in FY21.

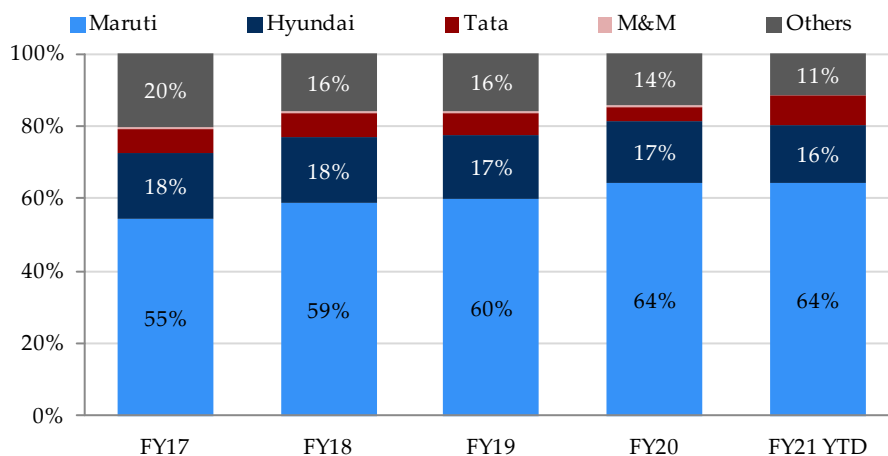


Source: SIAM, HSIE Research

Market share trends

- In passenger cars, Maruti has sustained share at 64% in FY21 YTD. The OEM is benefitting from down trading as well as the mix shift towards gasoline vehicles. Industry gasoline sales have now risen to 83% of total sales.

Market share of OEMs in the passenger car industry



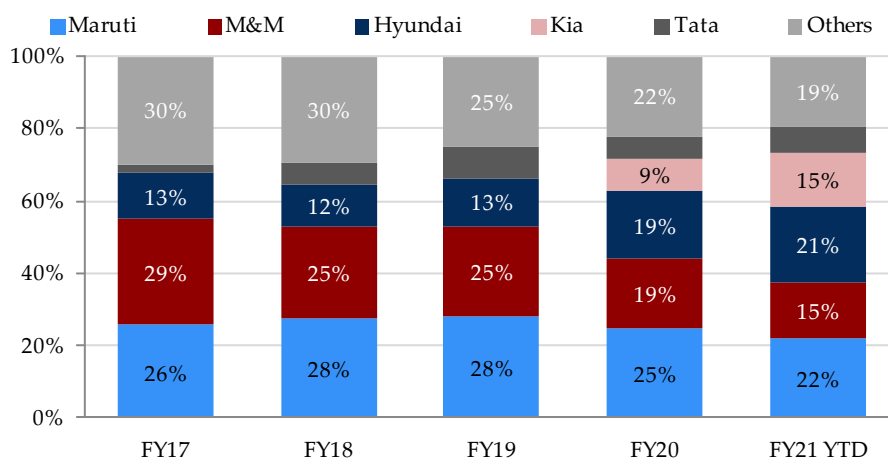
Maruti has sustained share at 64% in FY21 YTD

Source: SIAM, HSIE Research

- In SUVs, the Korean OEMs have gained share at the expense of Maruti and Mahindra. Hyundai + Kia's market share has risen to 36% vs. 28% in FY20. Maruti's share is down to 22% (-300bps from FY20) and Mahindra's to 15% (-400bps from FY20). Maruti's market share loss is due to the decline in MPV segment (post COVID-19 outbreak) as well as its limited presence in the mid-SUV segment, where models such as the Creta and Seltos are faring well.

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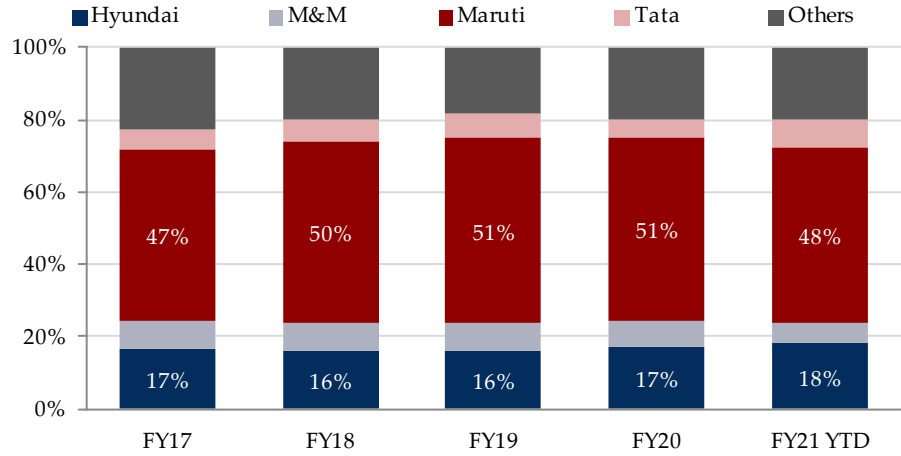
Market share of OEMs in SUVs



Source: SIAM, HSIE Research

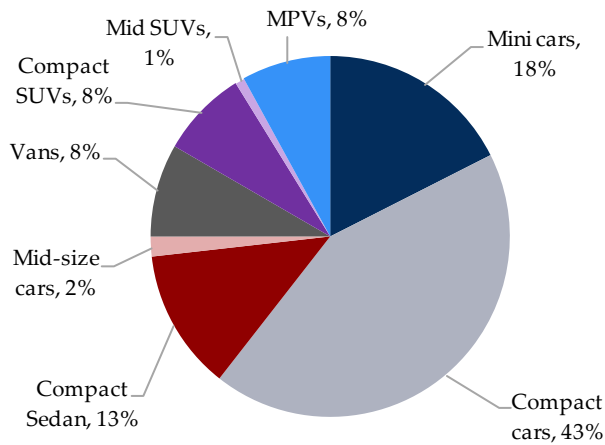
- Overall, the market share trends for the combined PV segment reflect that Maruti remains the dominant OEM with a market share of 48.5%. While the company has ceded ~270bps in market share over the year, we expect trends to improve as MPV segment demand revives, and the OEM addresses white spaces in the product portfolio (mid-SUV segment).

PV industry market share



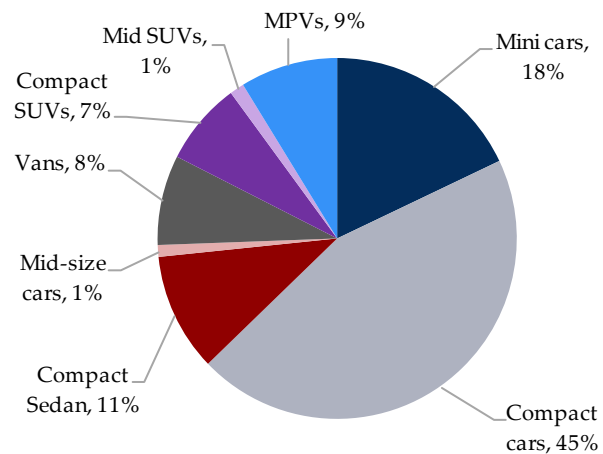
Source: SIAM, HSIE Research

Maruti Suzuki segmental mix FY20 (%)



Source: SIAM, HSIE Research

Maruti Suzuki segmental mix FY21 YTD (%)



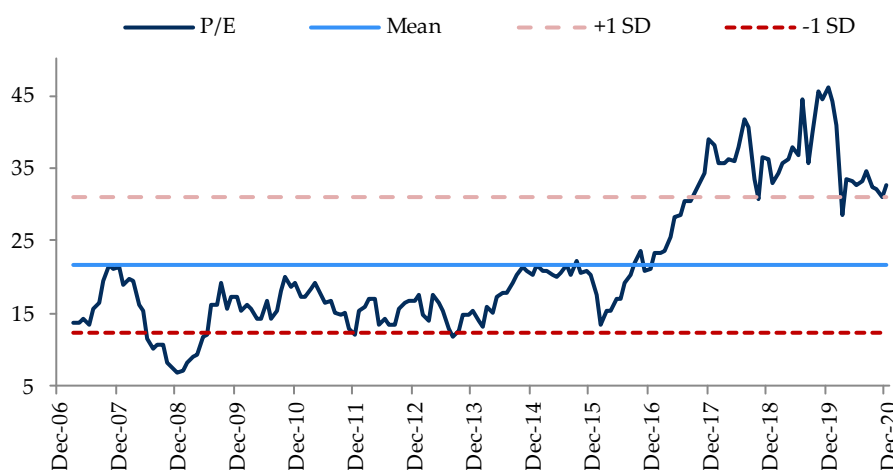
Source: SIAM, HSIE Research

Maruti: on the recovery path

With the recovery in the PV segment firming up, we believe that Maruti (BUY), being the market leader, would continue to benefit. We are building in mid-teens growth in the car segment over FY22/23E. We roll forward our target price for Maruti to Rs 9,100 at 27x FY23E EPS (~15% premium to the long-term historic trading multiple).

- We believe that Maruti stands to benefit from the improving demand environment in the broader economy. The OEM would benefit from its gasoline product mix as well as its dominant share in the entry-level segment.
- Maruti Suzuki has raised its guidance for vehicle production for FY21 by 2-11% for the Nov-Mar period. The OEM continues to witness encouraging demand trends, even post the festive season. The company had highlighted that the festive season received an encouraging response with inventory levels well under the standard 30-day levels. Production has been running at over 80% utilisation levels.

Maruti Suzuki P/E band chart



Source: Bloomberg, HSIE Research

Maruti Suzuki's volume assumptions

(in units)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Domestic sales	1,653,500	1,753,700	1,461,126	1,241,957	1,428,251	1,642,488
% YoY	14	6	(17)	(15)	15	15
Export sales	126,074	108,749	102,171	88,889	99,555	111,502
% YoY	2	(14)	(6)	(13)	12	12
Total sales	1,779,574	1,862,449	1,563,297	1,330,846	1,527,806	1,753,990
% YoY	13	5	(16)	(15)	15	15
Average Net ASP	448,212	461,867	483,661	482,828	497,346	512,296
% YoY	3	3	5	(0)	3	3

Source: Company, HSIE Research

Maruti Suzuki's financial summary

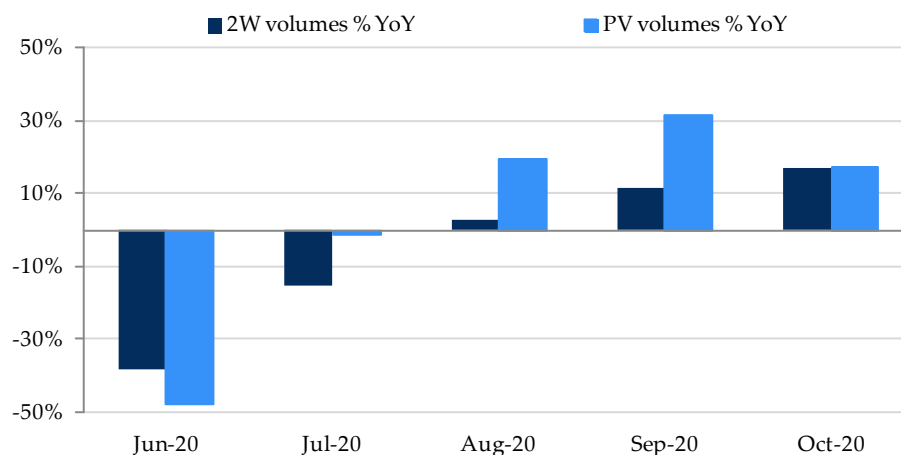
YE March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	797,627	860,203	756,106	642,569	759,849	898,562
EBITDA	120,615	109,993	73,026	52,691	92,322	117,442
APAT	77,218	75,006	56,506	45,358	80,300	101,877
Adj. EPS (Rs)	255.7	248.4	187.1	150.2	265.9	337.3
APAT Growth (%)	5.1	(2.9)	(24.7)	(19.7)	77.0	26.9
P/E (x)	30.3	31.2	41.4	51.5	29.1	22.9
RoE (%)	19.8	17.1	11.9	9.1	14.8	16.8

Source: Company, HSIE Research

Two-wheelers

- The recovery in 2W sales is lower than that of passenger vehicles.

Decline in passenger vehicles and two-wheelers

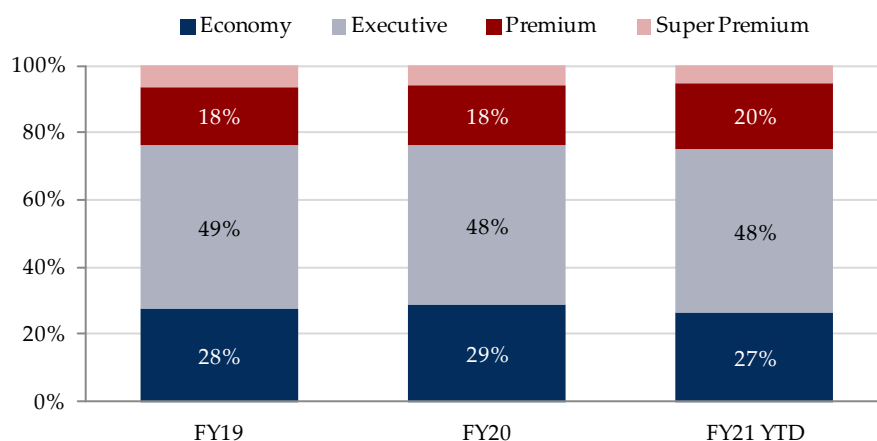


Unlike passenger cars, where entry segment sales have risen, in motorbikes, the entry-level bike sales have reduced

Source: SIAM, HSIE Research

- Unlike passenger cars, where entry segment sales have risen, in motorbikes, the entry-level bike sales have reduced by 210bps in the overall product mix to 26.5% (over FY20). It can be explained as follows:
 - entry bikes have witnessed a price hike of 15%, and
 - customers at the lower end of the pyramid are more impacted than the broader consumer set.

Two-wheelers segmental mix (%)

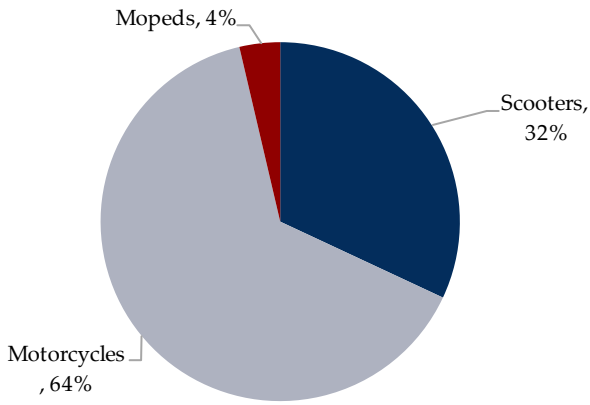


Source: SIAM, HSIE Research

- The share of motorbikes has risen in the overall product mix to 67.5% in FY21 YTD (+310bp over FY20). It is due to higher sales in the rural segment as this economy has fared better than the urban segments. Scooter sales have fallen as they are more urban-centric, where recovery trends are slow, and penetration levels are high. The share of scooters is down 360bps to 28.3%.

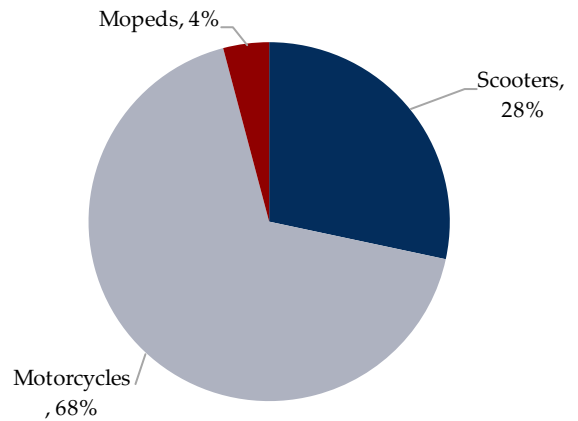
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FY20 2W segmental mix (%)



Source: SIAM, HSIE Research

In FY21YTD, the share of scooters has come down to 28%



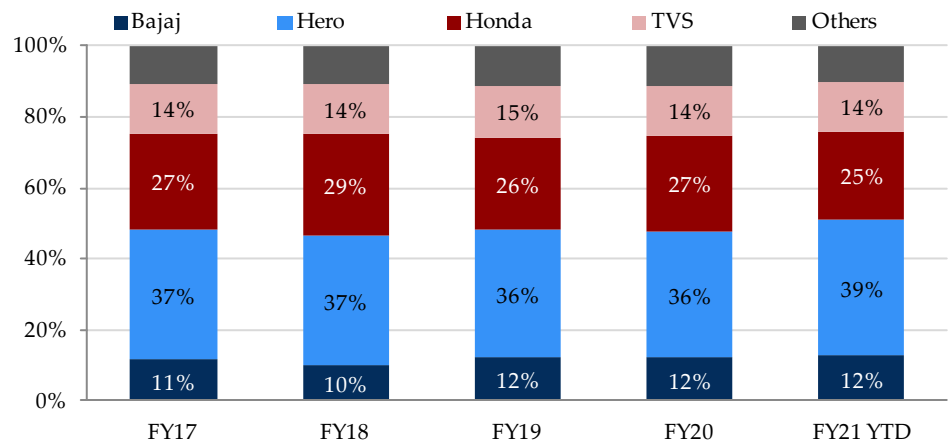
Source: SIAM, HSIE Research

- This trend has benefitted Hero Motocorp (market share is up 280bps to 38.6%, in the overall 2W industry). The market leader is at a multi-year high share.

Market share trends

Domestic 2W market share over the years

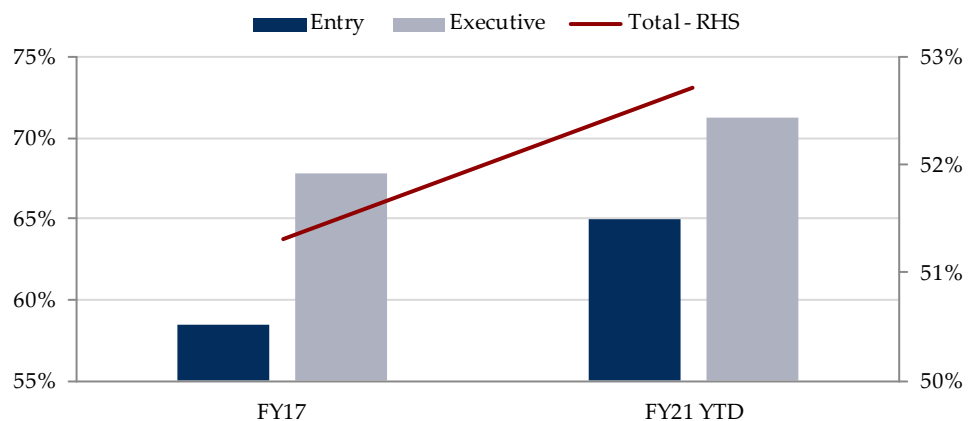
Hero's share in motorbike segments in the entry (65%) and executive segment (71%) is at record levels



Source: SIAM, HSIE Research

- Hero has not only benefited from the shift towards motorbikes, but its share in motorbike segments in the entry (65%) and executive segment (71%) is at record levels. Thus, its overall share in motorbikes is at 53% (up 100bps from FY20).

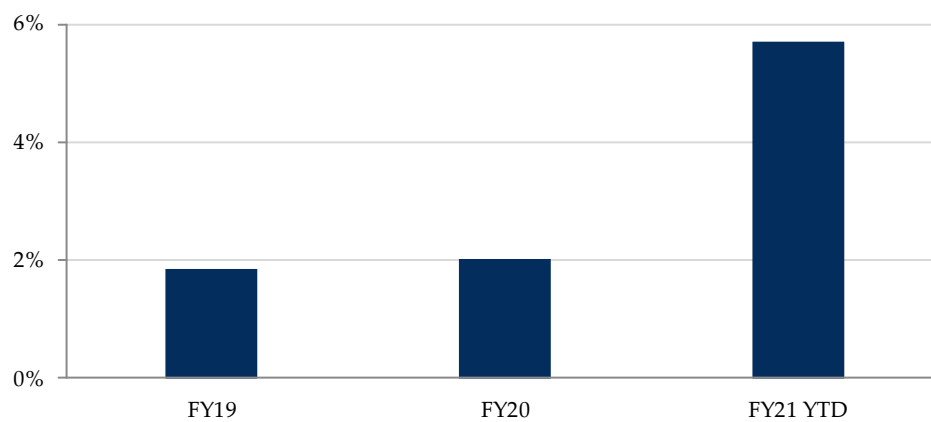
Hero's segment-wise market share



Source: SIAM, HSIE Research

- In the premium segment, Hero is witnessing early traction with the launch of the Xtreme 160cc. We expect the OEM to benefit from its revamped product portfolio.

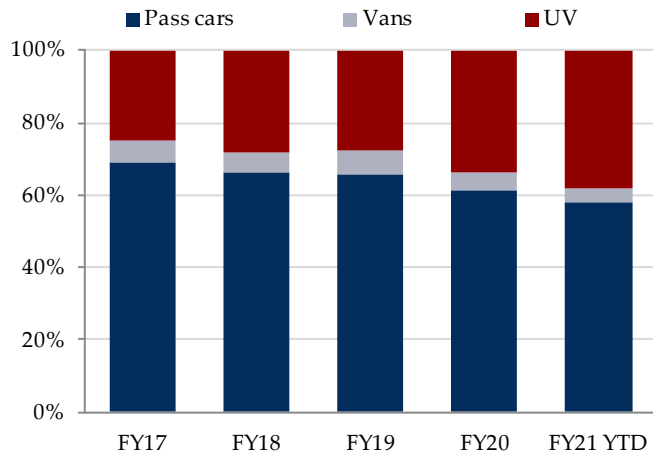
Hero's market share in the premium segment



Source: SIAM, HSIE Research

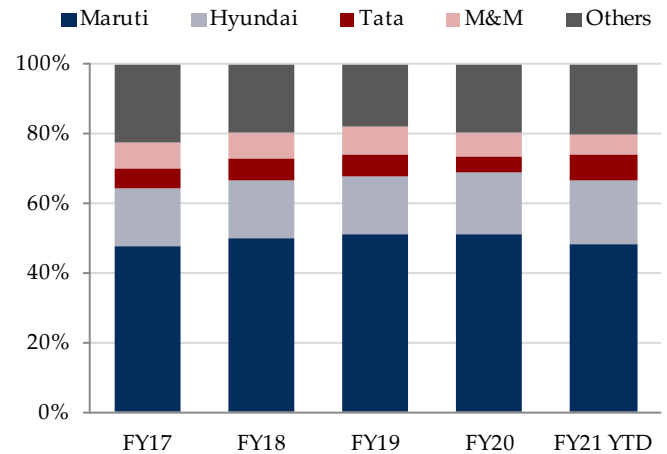
Annexure

Passenger vehicle industry mix (%)



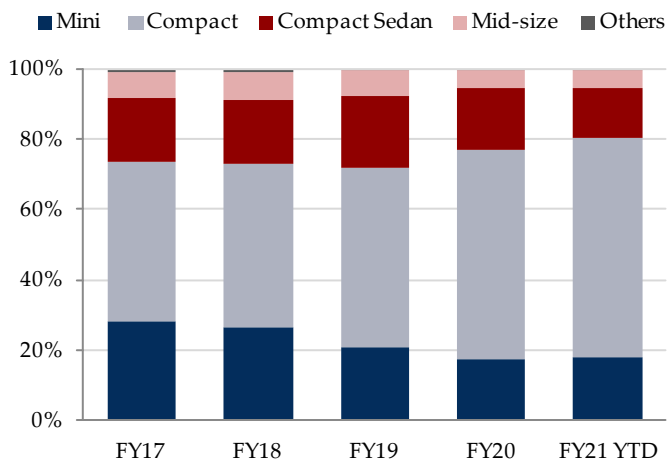
Source: SIAM, HSIE Research

Market share of the OEMs in the overall PV industry



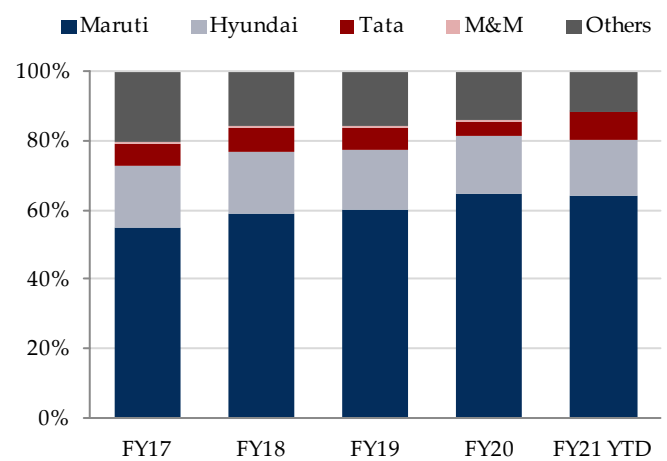
Source: SIAM, HSIE Research

Pass car industry segmental mix (ex-vans)



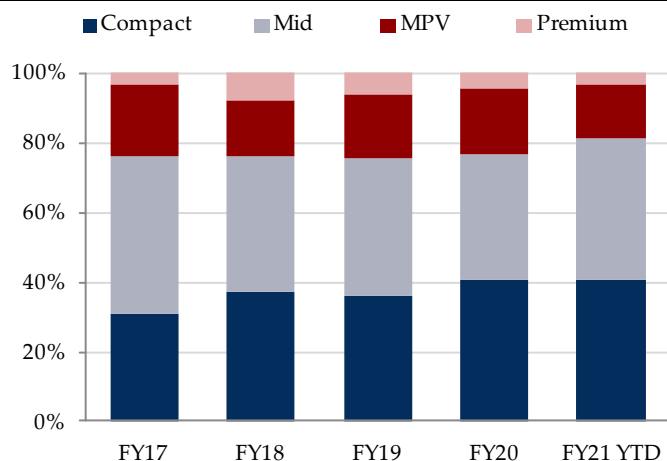
Source: SIAM, HSIE Research

Market share of the OEMs in Pass cars + Vans



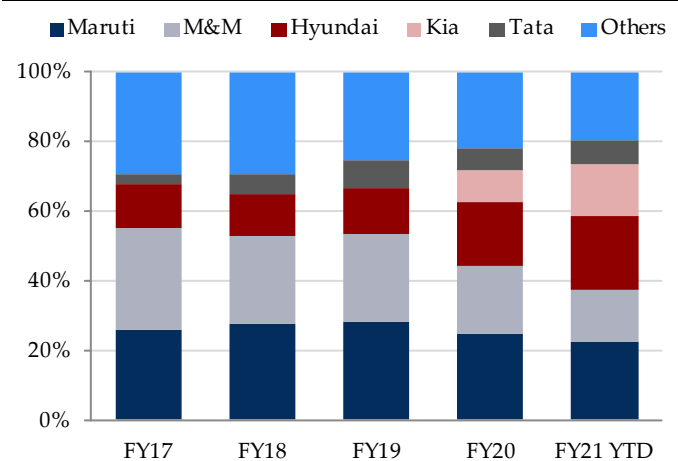
Source: SIAM, HSIE Research

SUV industry segmental mix (%)



Source: SIAM, HSIE Research

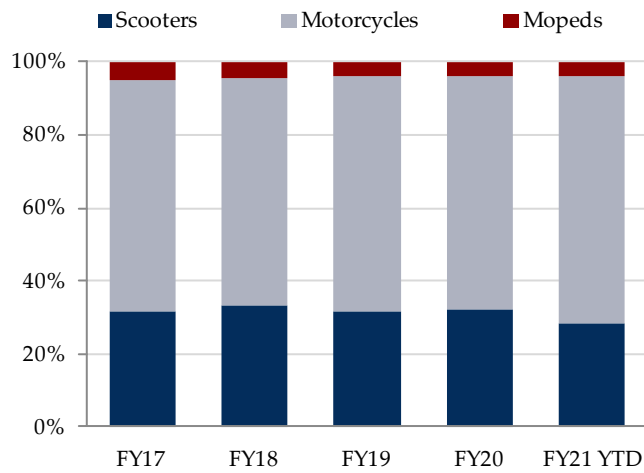
Market share of the OEMs in SUVs



Source: SIAM, HSIE Research

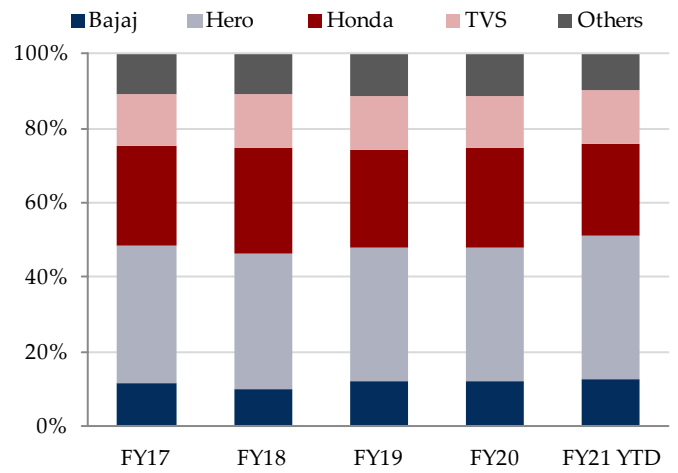
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Two-wheeler industry mix (%)



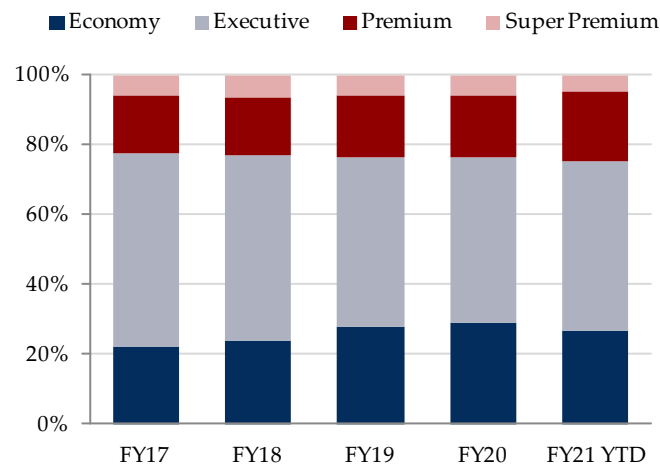
Source: SIAM, HSIE Research

Market share of the OEMs in the 2Ws industry



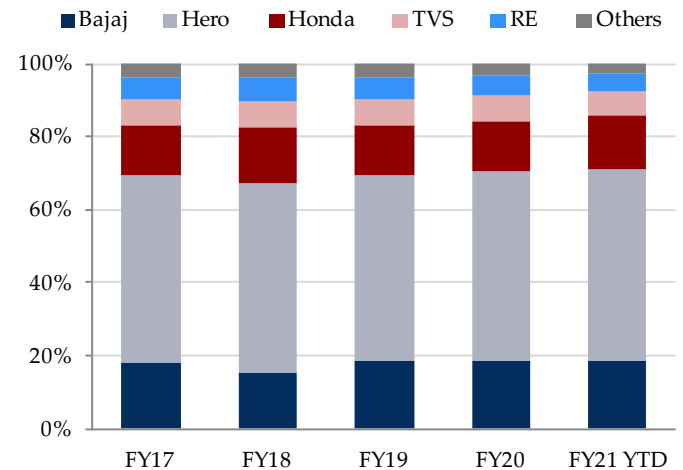
Source: SIAM, HSIE Research

Motorcycle industry segmental mix (%)



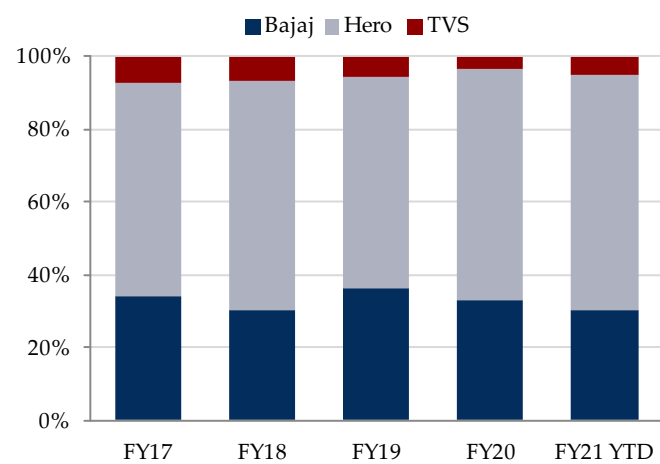
Source: SIAM, HSIE Research

Market share of the OEMs in the Motorcycle industry



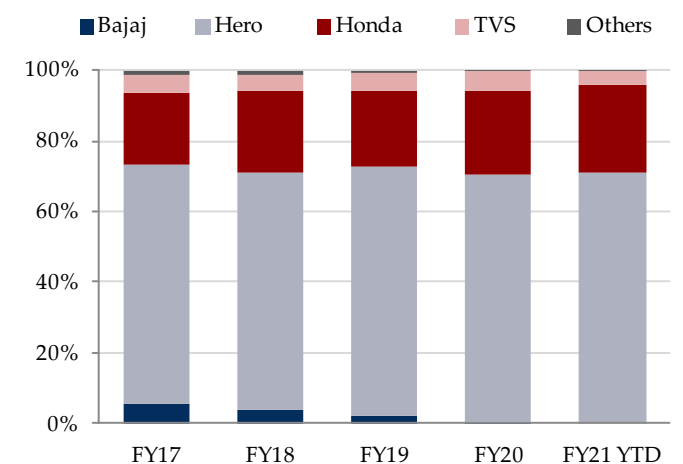
Source: SIAM, HSIE Research

Market share of the OEMs in Motorcycle-Entry segment



Source: SIAM, HSIE Research

Market share of the OEMs in Motorcycle-Executive segment



Source: SIAM, HSIE Research

Thematic reports by HSIE



Cement: WHRS – A key cog in the flywheel



Autos: Where are we on "S" curve?



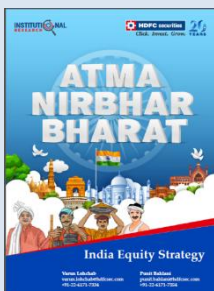
FMCG: Defensive businesses but not valuations



Autos: A changed landscape



Banks: Double whammy for some



India Equity Strategy: Atma Nirbhar Bharat



Indian IT: Demand recovery in sight



Life Insurance: Recovery may be swift with protection driving margins



Retail: Whole flywheel is broken?



Appliances: Looming beyond near-term disruption



Pharma: Chronic therapy – A portfolio prescription



Indian Gas: Looking beyond the pandemic



India Equity Strategy: Quarterly flipbook



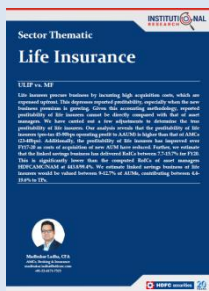
Real Estate: Ripe for consumption



Indian IT: expanding centre of gravity



Indian Chemical: Evolution to revolution!



Life Insurance: ULIP vs. MF



Infrastructure: On the road to rating



Cement: Spotting the sweet spot



Pharma: Cardiac: the heartbeat of domestic market



Life Insurance: Comparative annual report analysis



Indian microfinance: Should you look micro as macros disappoint?



India Equity Strategy: Quarterly flipbook

Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:

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